

**JACKSON COUNTY CONSERVATION DISTRICT**  
**38-7510**  
**FINANCIAL STATEMENT**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1988, as amended. Filing is mandatory.

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name & Finance Div. Jackson Co. Conservation Dist.	County Jackson
Audit Date 9-30-04	Opinion Date 11-11-04	Date Accountant Report Submitted to State: 12-15-04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements, (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU):			X

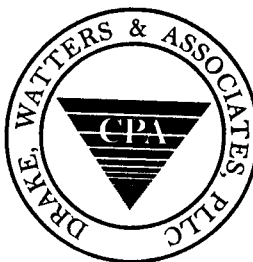
Certified Public Accountant (Firm Name) Drake, Watters & Associates, PLLC			
Street Address 415 S. Jackson St.		City Jackson	State MI
Accountant Signature <i>Robert R. Watters CPA</i>		ZIP 49201	

# **JACKSON COUNTY CONSERVATION DISTRICT**

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*Certified Public Accountants*

To the Board of Directors of  
Jackson County Conservation District  
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Jackson County Conservation District, Jackson County, Michigan (the District), as of and for the year ended September 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of September 30, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 11, 2004, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Board of Directors of  
Jackson County Conservation District  
Jackson, Michigan

The management's discussion and analysis (MD&A) and the required supplementary information other than MD&A, on pages 3-10 and 21, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Drake, Watters & Associates, PLLC*

November 11, 2004  
Jackson, Michigan

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

Jackson County Conservation District (the District), is a local unit of state government organized in 1947 for the purpose of overseeing soil and water conservation activity in Jackson County, Michigan. It is in its first year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Jackson County Conservation District's administration's discussion and analysis of the financial results for the fiscal year ended September 30, 2004.

Generally accepted accounting principles (GAAP) according to the GASB 34 requires the reporting of two types of financial statements: fund financial statements and district wide financial statements.

### **Fund Financial Statements:**

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the requirements of the Michigan Department of Agriculture's "Accounting Manual." The District's major activities are reported in the General Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. A record of capital acquisitions is maintained in the General Fixed Assets Group of Accounts. The issuance of debt, if any, is recorded as a financial resource. Payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **District Wide Financial Statements:**

The district wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district wide financial statements.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **Summary of Net Assets:**

The following summarizes the net assets at the fiscal year end:

September 30, 2004

#### **Assets**

Current assets	\$ <u>52,958</u>
Capital assets	10,773
Less: Accumulated depreciation	( <u>4,616</u> )
Capital assets, net book value	<u>6,157</u>
Total assets	\$ <u>59,115</u>

#### **Liabilities**

Current liabilities	\$ <u>6,607</u>
Total liabilities	<u>6,607</u>

#### **Net Assets**

Invested in capital assets, net of debt, if any	6,157
Unrestricted	<u>46,351</u>
Total net assets	<u>52,508</u>
Total liabilities and net assets	\$ <u>59,115</u>

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **Analysis of Financial Position:**

During fiscal year ended September 30, 2004, the District's net assets increased by \$360. A few of the significant factors affecting net assets during the year are discussed below:

#### **A. General Fund Operations**

The District's revenues from General Fund operations exceeded expenditures by \$1,439 for the fiscal year ended September 30, 2004. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

#### **B. Net Investment in Capital Assets**

The District's net investment in capital assets decreased by \$1,079 during the fiscal year. This can be summarized as follows:

	<u>Balance</u> <u>September 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2004</u>
Capital assets	\$10,773	\$ -	\$ -	\$10,773
Less: Accumulated depreciation	<u>( 3,537)</u>	<u>(1,079)</u>	<u>-</u>	<u>( 4,616)</u>
Net investment capital outlay	<u>\$ 7,236</u>	<u>\$(1,079)</u>	<u>\$ -</u>	<u>\$ 6,157</u>

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# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **Results of Operations:**

The district wide results of operations for the fiscal year end were:

September 30, 2004

### **Revenues:**

#### **General Revenues:**

Annual meeting	\$ 830
Interest income	249
In-kind donation	1,980
Other general revenues	<u>4,919</u>
Total general revenues	<u>7,978</u>

#### **Operating Grants:**

State of Michigan	20,000
Other operating grants	<u>23,855</u>
Total operating grants	<u>43,855</u>

#### **Charges for Services:**

Business-type activities	65,531
Other charges for services or merchandise	<u>5,560</u>
Total charges for services	<u>71,091</u>

Total revenues 122,924

### **Expenses:**

Operations	73,096
Other	1,928
Business-type activities	46,461
Depreciation	<u>1,079</u>
Total expenses	<u>122,564</u>

Increase in Net Assets 360

Beginning Net Assets 52,148

Ending Net Assets \$ 52,508

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **1. Major Grant Programs:**

The Michigan Department of Agriculture (MDA) State Operations grant of \$20,000 is basically unrestricted, and is used to:

- a. Maintain minimum office hours of 24 per week
- b. Provide and maintain public awareness of the location of the Jackson County Conservation District with signage and a web presence
- c. Follow MDA financial reporting guidelines and time frames
- d. Complete a work plan
- e. Complete and update a resource assessment of the natural resource concerns
- f. Provide necessary office staff

The Jackson County Appropriations Grant is an annual amount given to the Jackson County Conservation District in four equal payments. This payment is given by request from the Jackson County Conservation District at the end of each quarter. The amount for fiscal year 2003-2004 is \$23,000. This amount is up for review by the Jackson County Commissioners each year and subject to change depending on the County's budget.

We share the Groundwater Stewardship Program Technician with the Calhoun Conservation District. This employee is housed in their office and we are given an administration fee for providing support to this employee. The amount of this fee for fiscal year 2003-2004 is \$824.08. Jackson and Calhoun District administrators know that this is changing for fiscal year 2004-2005 because MDA Groundwater Stewardship Program is mandating that more technical dollars be spent in technician wages and benefits to attract and retain these technicians.

Currently, we are receiving funds from the Department of Natural Resources Wildlife Division under the Landowner Incentive Program (LIP) for work that our wildlife biologist does in the targeted areas in Jackson County covered under this program. These funds are requested quarterly after the completion of the quarter. Work plans are submitted for approval, along with a letter requesting reimbursement. The reimbursement for fiscal year 2003-2004 is \$729.28.

### **2. Business Activities:**

The Jackson County Conservation District conducts a spring and fall tree sale. Both sales have realized increased revenue with the determination of the Administration to provide the best product with a variety of species competitively priced each year along with strong customer service. The net income generating for spring was \$31,664.60 and for fall was \$2,487.57.

Conservation Products are offered throughout the year in addition to the tree sales generating another \$498.10 in revenue. The District provides a grain drill and a Subsoiler for landowners to use generating additional revenue of \$1,530.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

#### **General Fund Expenditures Budget vs. Actual 2-Year History**

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual to Original Budget</u>	<u>Expenditures Variance Actual to Final Budget</u>
2002-2003	\$ 121,891	\$ 122,967	\$ 142,054	16.54 %	15.52 %
2003-2004	\$ 129,190	\$ 127,397	\$ 121,485	( 5.96) %	( 4.64) %
Two Year Average Over (Under) Budget				5.29 %	5.44 %

#### **General Fund Revenue Budget vs. Actual 2-Year History**

<u>Fiscal Year</u>	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual to Original Budget</u>	<u>Revenue Variance Actual to Final Budget</u>
2002-2003	\$ 123,982	\$ 100,969	\$ 159,668	28.78 %	58.14 %
2003-2004	\$ 79,855	\$ 117,113	\$ 122,924	53.93 %	4.96 %
Two Year Average Over (Under) Budget				41.35 %	31.55 %

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

### **Original vs. Final Budget:**

Conservation Districts meet the definition of a "local unit" of government pursuant to Act 2 of the Public Acts of 1968, as amended regarding provisions of Sections 14 to 20a. These sections refer to budgets. Conservation Districts are required to adopt a budget in compliance with the act as spelled out in the Uniform Budgeting Manual and in compliance with the Uniform Chart of Accounts. Audits are required of the Conservation District by the Department of Agriculture as part of the grant process and by the Department of Treasury pursuant to a borrowing application under Act 34 of the Public Acts of 2002.

The Uniform Budget Act of the State of Michigan requires that Conservation Districts approve the original budget for the upcoming fiscal year prior to October 1, the start of its fiscal year.

As a matter of practice, Jackson County Conservation District amends its budget periodically during its fiscal year. The September 30, 2004 budget amendment was the final budget for the fiscal year.

### **Change from Original to Final Budget**

Total Revenues Original Budget	\$ 79,855	<u>%</u> 100
Total Revenues Final Budget	<u>117,113</u>	<u>132</u>
Decrease/Increase in Budgeted Revenues	<u>\$ 37,258</u>	<u>32%</u>

The District's final, actual general fund revenues differed from the final budget by \$5,811, a variance of 4.96 percent from final budget.

The final revenue budget reflects the following changes from the original budget:

- Spring tree sale realized increased revenue of \$10,139 over estimated budgeted revenue.
- Subsoiler and grain drill generated increased revenue over budget by \$368.
- Native Plant sale was new this year and generated \$1,094 in income
- Conservation products brought in additional income over budget by \$1,124.

### **General Fund Expenditures:**

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 129,190	<u>%</u> 100
Total Expenditures Final Budget	<u>127,397</u>	<u>97</u>
Increase/Decrease in Budgeted Expenditures	<u>\$ ( 1,793)</u>	<u>( 3)</u>

As indicated above, the District's actual expenditures were less than final budget by 4.64 percent.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended September 30, 2004**

Some of the significant expenditure activity for the year includes:

- The District decreased its budget for expenditures for the year from the original budget. During the year, the District was notified of a reduction in appropriations from the County Commissioners and the likelihood of further reductions due to decreased revenues to the County from the State of Michigan. Realizing the impact this would have to the District, frugal procurements of supplies and reduction in services offered were instituted to position the District for impending reductions to appropriations and increases to insurance policies carried by the District.

### **Factors Bearing on the District's Future**

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2004-2005 fiscal year:

- 2004-2005 marks the second straight year without an increase but rather a potential decrease to the District of another \$3,000 or more. Such funding is promised each year, but not guaranteed, as has been evident by the cuts during the past two fiscal years (\$2,000 & \$3000) to meet the State of Michigan's fiscal needs. Since the State's economy has not significantly improved, Jackson County's revenue sharing along with County fiscal obligations threaten the District's future operations budget. The District's administration does not foresee an increase in this allowance in the near future.
- Health insurance and other insurances carried by the District have seen fluctuations in cost over the past two years.
- The state of the overall economy with regards to employment restrict the amount of discretionary cash the public has to spend on our tree sales and this could be a potential problem in the future. The Jackson County unemployment rate is currently higher than the national unemployment rate. The County is continuing to see the loss of manufacturing jobs.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact our office, "Jackson County Conservation District."

# JACKSON COUNTY CONSERVATION DISTRICT

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

	District Wide Governmental Activities
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 41,891
Grants receivable	7,273
Prepaid expenses	1,060
Inventory	2,734
<b>Total current assets</b>	<b>52,958</b>
<b>Noncurrent assets:</b>	
Capital assets	10,773
Less: accumulated depreciation	(4,616)
<b>Total noncurrent assets</b>	<b>6,157</b>
<b>Total assets</b>	<b>\$ 59,115</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 5,545
Accrued expenses	1,062
<b>Total liabilities</b>	<b>6,607</b>
<b>NET ASSETS</b>	
Unreserved	52,508
Temporarily reserved	-
Permanently reserved	-
<b>Total net assets</b>	<b>52,508</b>
<b>Total liabilities and net assets</b>	<b>\$ 59,115</b>

See auditors' report and accompanying notes to financial statements.

# JACKSON COUNTY CONSERVATION DISTRICT

## STATEMENT OF ACTIVITIES YEAR ENDED SEPTEMBER 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total All Activities
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	
Governmental activities						
Operations	\$ 73,096	\$ -	\$ 43,855	\$ (29,241)	\$	\$ (29,241)
Other	1,928	-	-	(1,928)		(1,928)
Depreciation (Unallocated)	1,079	-	-	(1,079)		(1,079)
Total governmental activities	76,103	-	43,855	<u>\$ (32,248)</u>		
Business-type activities	46,461	71,091	-		<u>\$ 24,630</u>	24,630
Total activities	<u>\$ 122,564</u>	<u>\$ 71,091</u>	<u>\$ 43,855</u>			<u>(7,618)</u>

### GENERAL REVENUES:

Annual meeting	830
Interest	249
In-kind	1,980
Other	<u>4,919</u>
Total general revenues	<u>7,978</u>

### CHANGE IN NET ASSETS

Net assets, October 1, 2003	<u>52,148</u>
Net assets, September 30, 2004	<u>\$ 52,508</u>

See auditors' report and accompanying notes to financial statements.

# JACKSON COUNTY CONSERVATION DISTRICT

**BALANCE SHEET**  
**SEPTEMBER 30, 2004**

	ASSETS		
	Special Revenue	General Fixed Assets Account Group	Totals Memo Only
<b>Assets:</b>			
Cash and cash equivalents	\$ 41,891	\$ -	\$ 41,891
Grants receivable	7,273	-	7,273
Prepaid expenses	1,060	-	1,060
Reforestation inventory	2,734	-	2,734
Fixed assets	-	10,773	10,773
<b>Total assets</b>	<b>\$ 52,958</b>	<b>\$ 10,773</b>	<b>\$ 63,731</b>

## LIABILITIES AND FUND EQUITY

<b>Liabilities:</b>			
Accounts payable	\$ 5,545	\$ -	\$ 5,545
Accrued expenses	1,062	-	1,062
<b>Total liabilities</b>	<b>6,607</b>	<b>-</b>	<b>6,607</b>
<b>Fund equity:</b>			
Investment in general fixed assets	-	10,773	10,773
Unreserved	46,351	-	46,351
Temporarily reserved	-	-	-
Permanently reserved	-	-	-
<b>Total fund equity</b>	<b>46,351</b>	<b>10,773</b>	<b>57,124</b>
<b>Total liabilities and fund equity</b>	<b>\$ 52,958</b>	<b>\$ 10,773</b>	<b>\$ 63,731</b>

See auditors' report and accompanying notes to financial statements.



# **JACKSON COUNTY CONSERVATION DISTRICT**

## **RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES SEPTEMBER 30, 2004**

Total Governmental Fund Balances \$ 46,351

Amounts reported for governmental activities in the statements  
of net assets are different because:

Capital assets used in governmental activities are not  
financial resources, and are not reported in the funds.

The cost of the capital assets is

\$ 10,773  
(4,616)

Accumulated depreciation is

6,157

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 52,508

See auditors' report and accompanying notes to financial statements.

# JACKSON COUNTY CONSERVATION DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES YEAR ENDED SEPTEMBER 30, 2004

	GOVERNMENTAL FUNDS
<b>REVENUES:</b>	
State Grants	
MGSP Grant	\$ 855
State Operations Grant	20,000
Jackson County Board of Commissioners Grant	
Charges for Services	23,000
Tree sales	
Sale of materials	65,531
Equipment rental	4,030
Miscellaneous income	1,530
Annual meeting	4,919
In-kind contributions	830
Interest income	1,980
	249
Total revenues	<u>122,924</u>
<b>EXPENDITURES:</b>	
Employee expense (salaries, benefits, and taxes)	58,067
Employee training	449
Employee mileage	1,242
Office supplies	870
Insurance	214
Bank charges	44
Auditor expense	2,095
Fees, dues, etc.	840
Directors expense	1,375
Equipment rental	958
Materials purchased for resale	46,492
Annual meeting	1,342
Advertising and community promotion	1,309
Telephone	1,472
Postage	808
Rent	1,980
Miscellaneous	1,928
Total expenditures	<u>121,485</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,439
<b>FUND BALANCE - OCTOBER 1, 2003</b>	44,912
<b>FUND BALANCE - SEPTEMBER 30, 2004</b>	<u>\$ 46,351</u>

See auditors' report and accompanying notes to financial statements.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES SEPTEMBER 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 1,439

Amounts reported for governmental activities in the statements  
of activities are different because:

Governmental funds report capital outlays as expenditures and in the statement of activities  
these costs are allocated over their estimated useful lives as depreciation:

The cost of the capital assets acquired	\$ -	
Depreciation expense	<u>(1,079)</u>	<u>(1,079)</u>

Net Change in Net Assets of Governmental Activities \$ 360

See auditors' report and accompanying notes to financial statements.

# **JACKSON COUNTY CONSERVATION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

## **1. DESCRIPTION OF CONSERVATION DISTRICT OPERATIONS AND FUND TYPES**

The Jackson County Conservation District (the District) organized in 1947 for the purpose of "providing local guidance and involvement in the promotion of soil conservation in Jackson County, Michigan." The District is a local unit of state government, which operates under the direction of a board of directors. The board oversees the development and implementation of soil and water conservation activity in Jackson County, Michigan.

### **Reporting Entity**

In accordance with accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity," certain other governmental organizations are not considered to be part of the Conservation District entity for financial reporting purposes. The criteria established by GASB for determining the reporting entity include oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. The District has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the District's financial statements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accounts of the District are organized and operated on the basis of a fund. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. The financial activities of the District are recorded in the fund described as follows:

#### General Fund

This fund is used to account for all financial transactions except those provided for in another fund. Revenues are primarily derived from federal grants, state grants, and other intergovernmental revenues. The fund includes the general operating expenditures of the District.

### **Measurement Focus / Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the district conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the significant policies.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Governmental Funds**

The governmental fund types (General and Special Revenue) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

#### **Cash, Cash Equivalents and Investments**

Investments are reported at fair market values as described in Note 4. Demand deposits and short-term investments with maturity date of three months or less when acquired are considered to be cash equivalents.

#### **Fixed Assets**

Fixed assets purchased are recorded as capital outlay expenditures in the General Fund. The fixed assets are recorded in the general fixed assets account group, which is appropriate according to accounting principles generally accepted in the United States of America.

#### **Interest-Bearing Deposits**

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures, or when credited by the financial institutions to the interest-bearing account.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### **3. BUDGETARY PROCEDURES**

The District's board of directors adopts a budget for the general fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The District's board monitors and amends the budgets as necessary.

# **JACKSON COUNTY CONSERVATION DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

## **3. BUDGETARY PROCEDURES (continued)**

The budgeted revenues and expenditures for governmental fund types, as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance, include any authorized amendments to the original budget as adopted.

### **Excess of Expenditures over Appropriations in Budgeted Funds**

Public Act 621 of 1978, as amended, requires the District to adopt a budget for the General Fund. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

## **4. CASH AND INTEREST-BEARING DEPOSITS**

Deposits are carried at cost. Deposits of the District are made in banks in the name of the District Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association, United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks, mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan, and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

## **5. OPERATING LEASE COMMITMENTS**

The District leases office equipment under a five-year lease agreement. Equipment rental expense for the year ended September 30, 2004 was \$958. Future minimum lease payments are \$877 per year for 2005. The district has the option to buy the equipment for fair market value upon lease termination.

The District rents office facilities under a month-to-month operating lease requiring rent of \$1,980 annually. In addition, the agreement provides for the use of telephone equipment and the use of a postage meter for \$518 and \$525, respectively. The right of extension is conditional upon the landlord's approval.

# **JACKSON COUNTY CONSERVATION DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004**

### **6. IN-KIND CONTRIBUTIONS**

In-kind contributions consist of donated facilities with an estimated fair value of \$1,980 for the year ended September 30, 2004. The amount is reflected in the Statement of Revenues, Expenditures and Changes in Fund Balance as In-kind Contributions and Rent Expense.

### **7. CONTINGENCIES**

Grantor agencies reserve the right to perform certain audit work in addition to the work performed by the District's independent auditors. Disallowed costs, if any, resulting from such additional work would have to be absorbed by the District. Management does not believe that the District will incur any significant costs if such additional work should occur.

### **8. RISK MANAGEMENT**

The District obtains general liability, theft, and property insurance to cover potential losses. There were no reductions in insurance coverage from prior years.

### **9. CONCENTRATION OF RISK**

The District obtains a materially significant amount of its operating revenue from grants coming through the State of Michigan Department of Agriculture. Loss of these grants would be detrimental to the ability of the organization to continue as a going concern.

### **10. ACCOUNTING CHANGE**

Effective October 1, 2003, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). Changes to the District's financial statements as a result of GASB 34 are as follows:

An Administration Discussion and Analysis section providing analysis of the District's overall financial position and results of operations has been included.

District wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the District's activities have been provided.

Capital assets and accumulated depreciation are recorded in the governmental activities column of the statement of net assets.

## **Required Supplemental Information**

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# JACKSON COUNTY CONSERVATION DISTRICT

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2004

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET OVER (UNDER) ACTUAL
	ORIGINAL	FINAL		
<b>REVENUES:</b>				
State Grants				
MGSP Grant	\$ -	\$ 31	\$ 855	\$ 824
State Operations Grant	20,000	20,000	20,000	-
Jackson County Board of Commissioners Grant	-	23,000	23,000	-
Charges for Services				-
Tree sales	55,000	64,147	65,531	1,384
Sale of materials	125	3,563	4,030	467
Subsoiler/Grain Drill	1,325	1,162	1,530	368
Miscellaneous income	2,255	4,200	4,919	719
Annual meeting	1,000	830	830	-
In-kind contributions	-	-	1,980	1,980
Interest income	150	180	249	69
Total revenues	79,855	117,113	122,924	5,811
<b>EXPENDITURES:</b>				
Employee expense (salaries and benefits)	77,508	61,375	58,067	3,308
Employee training	500	500	449	51
Employee mileage	2,190	1,690	1,242	448
Office supplies	900	810	870	(60)
Insurance	350	428	214	214
Bank charges	75	50	44	6
Auditor expense	1,000	2,095	2,095	-
Fees, dues, etc.	840	840	840	-
Directors' expense	2,500	1,865	1,375	490
Equipment rental	877	960	958	2
Materials purchased for resale	34,575	49,885	46,492	3,393
Annual meeting	1,200	730	1,342	(612)
Advertising and community promotion	1,400	1,628	1,309	319
Telephone	2,000	2,000	1,472	528
Postage	800	908	808	100
Rent	-	-	1,980	(1,980)
Miscellaneous	2,475	1,633	1,928	(295)
Total expenditures	129,190	127,397	121,485	5,912
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(49,335)	(10,284)	1,439	11,723
<b>FUND BALANCE - OCTOBER 1, 2003</b>	44,912	44,912	44,912	-
<b>FUND BALANCE - SEPTEMBER 30, 2004</b>	\$ (4,423)	\$ 34,628	\$ 46,351	\$ 11,723

See auditors' report and accompanying notes to financial statements.

**Report On Compliance And On Internal Control Over Financial  
Reporting Based On An Audit Of Financial Statements Performed In  
Accordance With Government Auditing Standards**

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*Certified Public Accountants*

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors of  
Jackson County Conservation District  
Jackson, Michigan

We have audited the financial statements of the Jackson County Conservation District for the year ended September 30, 2004, and have issued our report thereon dated November 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Jackson County Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

The District exceeded budgeted expenditures in the General Fund. The over-expenditure of the budget was a violation of Michigan law.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Jackson County Conservation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Jackson County Conservation District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Board of Directors of  
Jackson County Conservation District  
Jackson, Michigan

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, our audit disclosed the following reportable condition that we believe results in more than a relatively low risk that errors or irregularities in amounts that would be material may occur and not be detected within a timely period. A description of the material weakness is as follows:

A lack of segregation of duties exists within the District's accounting system. However, due to the small size of the District's staff, the costs associated with any effort to mitigate this weakness would exceed any benefit achieved.

This condition was considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the general-purpose financial statements. This report does not affect our report on the general-purpose financial statements dated November 11, 2004.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Jackson County Conservation District in a separate letter dated November 11, 2004.

This report is intended for the information of the Jackson County Conservation District's management. However, this report is a matter of public record and its distribution is not limited.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
November 11, 2004

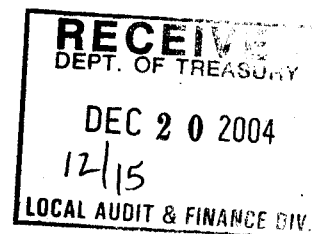
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*Certified Public Accountants*

November 11, 2004



To the Management and  
The Board of Directors of  
Jackson County Conservation District  
Jackson, Michigan

In planning and performing our audit of the financial statements of Jackson County Conservation District for the year ended September 30, 2004, we considered the District's internal control in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during the audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. This letter does not affect our report dated November 11, 2004 on the financial statements of Jackson County Conservation District.

There will be a review of the status of these comments during your next audit engagement. We have already discussed many of these comments and suggestions with Sharon and will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. Our recommendations are summarized as follows:

#### *Segregation of Duties*

Due to the limited number of employees, the District does not have sufficient segregation of duties among personnel. As a result, the Board of Directors should remain involved in the financial affairs of the District to provide oversight and independent review functions.

#### *Accounting*

We made routine journal entries for payables, vacation accruals and in-kind contributions. The journal entries were given to Sharon to approve and post.

#### *Budgeting*

With the implementation of GASB 34, your financial statements now have to include the original "proposed" budget adopted prior to the beginning of each year, and the final budget after revisions at the end of each year. You need to be sure you maintain a copy of each of these budgets so they can be included in your audit reports.

Also, when budgeting for the next year, we would recommend that you include a line item for the "in-kind" contribution for office rent. Since you know this amount, you might as well allow for it in your budgeted revenue and expense.

Management and Board of Directors of  
Jackson County Conservation District  
November 11, 2004  
Page 2

We would like to thank Sharon for her help and professionalism throughout the audit. The quality of her work shows a dedication to the financial affairs of the District.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
November 11, 2004